MULTINATIONALS: CONGRESS TO INVESTIGATE IN 1973

Congress in 1973 will examine the impact of the world's largest corporations on the U.S. economy and on U.S. relations with other nations. Under scrutiny will be some of the world's industrial giants, known as multinational corporations because their operations span national borders and even continents.

As home base for the largest multinationals, the United States has a large stake in understanding the economic and political importance of overseas investments by U.S. firms. According to Commerce Department projections, American companies planned to invest $15.2-billion during 1972 in foreign plants and equipment, bringing total direct investment abroad by U.S. business to $107.2-billion.

To many, including Nixon administration officials, such investments promise progress and prosperity for the United States as well as other nations. To others, notably organized labor, overseas investments represent jobs lost to American workers.

To students of foreign relations—and the Senate Foreign Relations Committee—multinationals present the actual or potential threat of undue influence over U.S. foreign policy by private interests. To some scholars, multinationals are a worldwide unifying force headed for conflict with the outmoded interests of existing nation-states.

The 93rd Congress will have at least two forums for addressing problems posed by multinationals: a Foreign Relations Committee investigation and restrictive trade legislation backed by the AFL-CIO.

Reference. *Editorial Research Report, "Multinational Companies," 1972 Vol. II No. 1, July 5, 1972.*

Hartke-Burke Proposals

Organized labor's complaint about multinational corporations is that they "export jobs" by shifting operations from the United States to other nations.

In the view of AFL-CIO President George Meany, a multinational is "a runaway corporation...beyond the reach of present U.S. law or the laws of any single nation."

Sen. Vance Hartke (D Ind.), a sponsor of the AFL-CIO-backed legislation, told the Foreign Policy Association in a March 27 speech that U.S. companies had set up more than 8,000 subsidiaries abroad, resulting in "the loss of hundreds of thousands of American jobs."

Hartke and Rep. James A. Burke (D Mass.) during the 92nd Congress introduced legislation repealing tax deferments and credits on U.S. corporations' investments overseas and imposing new quotas on imports. The Hartke-Burke bill received no formal consideration in either the House or Senate, but its introduction set off a lively debate in Congress and in the U.S. business community.

The threat that provisions of the Hartke-Burke bill would be added as a rider was credited with forestalling any 92nd Congress action on trade legislation. *(Weekly Report p. 1183)*

According to some estimates, the Hartke-Burke provisions would reduce the profitability of many multinationals by half; faced with such a threat, the companies and business groups launched a counter-attack on labor's position.

In their campaign against Hartke-Burke, the multinationals found important allies in the Nixon administration and in Congress. A Commerce Department study published in January rejected labor's claim that overseas investment cost jobs in the United States.

Studies by Harvard University and by business-connected groups reached much the same conclusion. Public officials, including Secretary of Commerce Peter G. Peterson, Sen. Jacob K. Javits (R N.Y.) and Sen. Charles H. Percy (R Ill.), have contended that the bill would harm the U.S. economy by curtailing multinationals' profits and by provoking protectionist trade measures by other nations.

Committee Investigation

The Senate Foreign Relations Committee March 24 voted to undertake a study of the multinational corporations' influence on U.S. foreign policy. The committee acted in response to allegations that one company, International Telephone and Telegraph Corp. (ITT), had tried in 1970 to block the inauguration of Chile's elected Marxist president, Salvador Allende Gossens.

Syndicated columnist Jack Anderson March 20 reported that he had obtained copies of memos from ITT's Washington office indicating that company officials had worked with the Central Intelligence Agency in an attempt to keep Allende from taking office. ITT had extensive holdings in Chile.

Sen. Frank Church (D Idaho), chairman of the Foreign Relations Subcommittee on Western Hemisphere Affairs, was named chairman of the new Subcommittee on Multinational Corporations. Other members were Democrats Stuart Symington (Mo.) and William B. Spong Jr. (Va.) and Republicans Clifford P. Case (N.J.) and Percy. Spong was defeated for re-election in the Nov. 7 election.

The subcommittee's three-person staff began a background investigation on Sept. 5. Clare Weeks, a staff member, said the subcommittee hoped to start hearings in February on ITT's involvement in Chile. Subsequent hearings would consider other multinational involvements in South America, Japan, Canada and Western Europe, she said, as well as operations of the Overseas Private Investment Corporation (OPIC), a government-backed enterprise that insures U.S. investments abroad. Another subject of investigation was the tax laws that would be revised by the Hartke-Burke bill.

Do Multinational Corporations 'Export' Jobs?...

Like its predecessor, the 93rd Congress convening in January will be concerned with the growth and rising economic influences of giant multinational corporations—companies with operations across the globe. The Senate Foreign Relations Committee plans hearings on multinationals' impact on foreign policy—particularly on alleged attempts by the International Telephone and Telegraph Corp. (ITT) to interfere with Chile's internal politics. Congress also is likely to have before it legislation backed by organized labor that would impose quotas on imports and repeal tax incentives for overseas investment—all in the name of stopping the alleged export of American jobs by multinationals. Should Congress enact legislation curbing overseas investment by multinational firms based in the United States?

Pro:

George Meany, AFL-CIO president, in 1971 testimony before the Senate Finance Subcommittee on International Trade:

"The multinational is not simply an American company moving to a new locality where the same laws apply and where it is still within the jurisdiction of Congress and the government of the United States. This is a runaway corporation, going far beyond our borders. This is a runaway to a country with different laws, different institutions, and different labor and social standards....The multinationals' global operations are beyond the reach of present U.S. law or the laws of any single nation."

AFL-CIO Executive Council, 1971 statement on need for trade and investment legislation:

"Multinational firms and banks, usually U.S.-based and sometimes in tandem with foreign-based multinationals, now have global operations which benefit from the policies of every country, but which are beyond the reach of present U.S. law or the laws of any single nation. The policies of these U.S.-based firms and banks are designed solely to profit the corporations and are made with disregard for the needs of the United States, its economy and its people."

Stanley H. Ruttenberg & Associates, in a 1971 study of foreign trade policy prepared for the AFL-CIO Industrial Union Department:

"It is clear that the development of multinationals has had an adverse effect on American output and jobs. First...earnings are not fully repatriated but instead held abroad for reinvestment, contributing further to the deficit in our balance of payments. Second, it is no longer true that the establishment of U.S. subsidiaries abroad generates an automatic demand for machinery and parts which can only be filled in this country.

"Third, there can no longer be any question that the growth of the multinationals has meant a loss of jobs for U.S. workers....The outward shift of production...is not limited to the low-wage, labor-intensive, low-skill industries. It is occurring...in the advanced technology industries of the future...such as electronics and aircraft, in basic industries...such as steel; and even in industries which we invented, like the automotive industry."

AFL-CIO Vice President Paul Jennings in a 1971 report on trade in the AFL-CIO *Federationist:*

"The United States exported 65,000 jobs in the shoe industry between 1960 and 1969.... Entire industries and thousands of jobs have been exported in such diverse items as typewriters, bicycles, watches, radios, tape recorders and baseball gloves. In many other industries, we are now producing only a token of former production in the U.S. economy."

Sen. Vance Hartke (D Ind.), in a 1971 statement introducing the Hartke-Burke bill:

The bill "seeks to protect the best interests of America against the worst practices of international corporations. It seeks to meet the challenge of foreign imports by better ensuring that American manufacturers can compete equitably with foreign producers.

"Americans know that new business forms have developed—often spawned by obsolete features of the tax laws. Multinational firms and banks—huge enterprises which produce different products in different countries while using a U.S. base for management—now span the globe....As fast as the technology for space or electronic equipment is developed and the patent is received, that technology is transferred abroad.

"We see no reason to encourage (multinationals') production abroad.... This bill would make it equally advantageous to invest in Indiana as it is to invest in Ireland."

Rep. Henry S. Reuss (D Wis.), chairman of the Joint Economic Subcommittee on International Exchange and Payments, at a New York City forum on multinational companies:

"Multinational corporations, despite their contributions to a more prosperous world, have some sins to answer for—what they do to jobs, to short-term capital movements, to the environment, to governments and their officials.

"Multinational corporations are increasingly taking on the role of super-governments, with no international governmental structure in being to cope with them. Private U.S. citizens, are trying to make the multinational accountable to the natural law. But success is not yet in sight."

Jocelyn Gutchess, an associate of Stanley H. Ruttenberg & Associates, in a 1972 article in an AFL-CIO Industrial Union Department publication:

"Do we have to continue to favor the multinationals? No. The present tax laws were written when it was in the best interest of the United States to stimulate foreign investment as a way of helping the war-ravaged countries of Europe and Asia reconstruct their industries and economies, and as a method for improving the standard of living in the less developed countries of the world. Now that the European countries have fully recovered, and with other programs in effect to help the others, it is no longer necessary to [illegible] ...ture. U.S. tax policy, like

...Should Congress Limit Overseas Investments?

all public policy, should be designed to serve U.S. interests, which must always be the maintenance of a strong and healthy economy.

"By making these changes in the tax laws now, at least one of the set of factors leading to the spread of the movement of U.S. corporations abroad will be mitigated, if not eliminated entirely. The U.S. Treasury will be richer. The U.S. economy will be strengthened."

Con:

Sen. Charles H. Percy (R Ill.), in a 1972 address to a seminar sponsored by the Machinery and Allied Products Institute:

"What is new is the attack against American corporations with extensive overseas holdings.... The facts are that such investments are made largely to meet market demands that cannot be served by exports from the United States.

"Far from depriving Americans of jobs, or acting as a haven for investment capital, our multinational corporations are a positive force both in creating new jobs here and in keeping the United States strongly competitive in the world market."

Secretary of Commerce Peter G. Peterson, in a 1971 press briefing by the President's Council on International Economic Policy (Peterson then was assistant to the President for international economic affairs):

"The presumption (of proposals such as the Hartke-Burke bill) is these corporations are seriously affecting our export position. We think it is important that we get the facts on these subjects as part of formulating appropriate policy.

"Some of the data we have gathered, for example, suggests that some of those fears are certainly exaggerated. And that, indeed...it is quite possible that they have stimulated exports rather than reducing them.

"I don't know of many companies that set up affiliates and all of the costs and energy that is required unless they can get at markets that they otherwise couldn't get at.... They enable us to get at markets that we otherwise couldn't get at, which in turn makes it possible to ship over sub-assemblies and components, other parts of a product that we otherwise would not have a market for."

Sen. Jacob K. Javits (R N.Y.), in a March 27, 1972, debate with Hartke before the Foreign Policy Association in New York City:

"The ills of our trillion-dollar plus economy...cannot be blamed on $45-billion of imports or on the mythical demon called the multinational corporation which allegedly operates facelessly in foreign lands to the detriment of all working Americans.

"It is the fashion of the day to malign the multinational corporations both at home and abroad. It seems that human nature needs something to rally against and the term multinational corporations creates an effective foreign devil image, when in fact we are talking about the major U.S. corporations which are the most important and growing high-wage employer of the American working man in the private sector of our economy."

Orville L. Freeman, former secretary of agriculture (1961-69) and president of Business International Corporation, in a response to Hartke's argument printed in *The New York Times* on March 5, 1972:

"There is a large body of evidence available which clearly indicates that foreign investment actually creates jobs at home and has other strengthening effects on the U.S. economy....The study (by Freeman's firm) proves rather conclusively that the more money a company invests overseas, the greater its domestic rate of growth in exports and employment.

"If American companies were deprived of their foreign earnings, the effect on our economy would be devastating. Many companies might not be able to survive.

"One thing is certain: the establishment of overseas facilities does not inhibit domestic investment. Neither does it add to our balance-of-payments deficit."

James M. Roche, former General Motors board chairman, in an April 12, 1972, speech in Tokyo, Japan:

"In the United States, we hear strong fresh demands for protectionist legislation. This latest attack on economic freedom is known as the Burke-Hartke bill. Its stated purpose is to stop multinational corporations from 'exporting jobs and technology.'

"This is a legislative attempt to turn back the clock of history and is the old protectionist threat in a new form.... The new charge is that domestic companies export capital to build facilities designed to serve the domestic market."

An Emergency Committee for American Trade study concluded "that the multinational company, through its overseas investments, is able to serve markets which otherwise would be closed to it. The motivation is not to find low-cost labor in the advanced countries. Rather it has been a quest for market participation in areas which would otherwise be closed to exports."

Donald M. Kendall, chairman of the Emergency Committee for American Trade, as quoted in a July 1972 committee newsletter account of its study of multinational companies:

"We have firmly established that the attack on the multinational company is a case of mistaken identity. These companies don't export jobs. They out-perform other companies in making jobs. In general, they make better jobs with better pay and backed by higher investment than other companies.

"The public must realize that the earnings of overseas operations would be severely diminished—even lost—if measures like the Burke-Hartke bill were enacted and that nothing would take the place of those earnings. Foreign companies would take over the markets, and the lost earnings of American companies would not go to American investors, would not be spent here in America, would not create American jobs, but would simply enrich others at the expense of the American economy."